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SUBJECT: A TALE OF THREE CENTRAL COAST PROVINCES: THE GOOD, THE WEIRD
AND THE LUCKY

REF: HCMC 535 -- Paths to Provincial Leadership

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11. (SBU) Summary: The three south-central coastal provinces of Khanh Hoa, Phu Yen and Binh Dinh may occupy the same long stretch of coast, but strong local leadership commitment to economic reform enables Binh Dinh to thrive while Khanh Hoa meanders and Phu Yen stumbles. The annual Vietnam Provincial Competitiveness Index, a nationwide survey of businesses in Vietnam, reflects this clearly with Binh Dinh in the top tier (#11) while Khanh Hoa (#36) and Phu Yen (#39) rate average. New roads and industrial parks are paving the way for expanding industrial activity and a glittery new resort complex in Binh Dinh, augmenting its furniture manufacturing base and Vietnam's third busiest port. On paper, Phu Yen boasts the largest investment projects of them all, yet none have materialized nor are there convincing signs that they will. Khanh Hoa province has begun several huge industrial and tourism projects, sometimes side-by-side as in massive Van Phong Bay with its large ship building factory, but the economic downturn has made the future of these projects uncertain. Projects in the three provinces have sharp contrasts in terms of strategic approach, management and economic viability - which ultimately will have a big impact on their success. End Summary.

With Good Potential: Binh Dinh

12. (SBU) Quy Nhon City sits where Highway 19, the Central Highlands' main access to the sea (courtesy of the U.S. Army Corps of Engineers in the 1960s), meets National Highway 1 on its way from HCMC to Hanoi. Agricultural products like sugarcane and tapioca flow out from the Central Highlands while cement, steel and other building materials flow in. Most of these goods pass through Quy Nhon, making it the third busiest port by volume with 3.5 million DWT shipped in 2008, behind HCMC and Hai Phong, but ahead of Danang or Nha Trang. Economic diversity has helped Quy Nhon Port weather the global economic downturn, and has kept shipping rates low and the port growing strong: 50 percent of its activity is export of agriculture, forestry and mineral products, 30 percent is imports of fertilizer, construction materials and machinery, and 20 percent of throughput is domestic. The port's biggest challenge is raising capital, because national infrastructure development plans favor developing new facilities elsewhere on the coast rather than expanding existing facilities in response to demand.

13. (SBU) According to the Binh Dinh Provincial People's Committee (PPC), growth of local industry has reversed the flow of migrant labor back to Quy Nhon in recent years. Leaders boast that administrative reform is the PPC priority, citing the province's #11 ranking and good marks for transparency, lack of bias toward state-owned enterprises, and good infrastructure. Businesses ranging from local furniture manufacture My Tai to agriculture titan Cargill confirmed what the PPC said, "Binh Dinh is a great place to do business because local leaders actively encourage investment." Provincial leaders have also looked beyond industry toward promoting tourism development, as evidenced by the \$500 million Vinh Hoi resort development project located on a stunning bay north of Quy Nhon City. Mr. Tran Duc Canh, the Vietnamese-American managing the development, told EconOff that the Ritz Carlton, the Marriott, and the Outrigger are already on board with their five-star hotels, with the first set to be operational in 2013. Mr. Canh echoed other businesses sentiments about provincial cooperation, noting that Quy Nhon authorities recognize the economic potential and employment opportunities (around 4,000 just for the hotels) the resort area will bring and have been "easy to work with."

The Weird: Phu Yen

15. (SBU) There is no shortage of big dreams in Phu Yen province; PPC Chief of Cabinet Ho Van Tien listed dozens of promised investments climbing into the billions, but couldn't articulate steps taken to turn these plans into reality. Instead he steered conversation to the advantages of Phu Yen's special breed of 'yellow cow' noting there are 300,000 domesticated animals in the province. In a similar disconnect, provincial advocates pointed to a scenic 186-mile detour through the Central Highlands on the way to Tuy Hoa as an infrastructural

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"advantage" for visitors over its southern neighbor which is merely a straight shoot up the national highway from HCMC. Because Phu Yen's coast is not protected by mountainous bays, the fresh flow of water keeps it "cleaner," advocates explained, and has thus been keenly sought out by investors despite being one of the more storm-prone areas in Vietnam. The disconnect between plans and results is also reflected in Phu Yen #39 PCI ranking in 2008, with "informal charges", "proactivity" and unsurprisingly, "transparency" indicators scraping the bottom of the barrel.

16. (SBU) Even our private sector contacts reflected this schizophrenia. Smack in the middle of the provincial capital Tuy Hoa City is the Cendeluxe "five star hotel and Eco Tourism Complex," owned and operated by the Thuan Thao Corporation. The company had humble beginnings in 1975, when its chairman, Madame Thao, started a small consumer-goods distribution business. Gradually she expanded into transportation and now the company is stretched in a dozen business areas and has become the richest company in the province. Thuan Thao's Deputy Director Mr. Cu noted that the company has very close relations with the provincial government. Just how close this "close relationship" is was demonstrated last year after media reported that Thuan Thao was illegally digging up trees on city streets and replanting them inside their hotel and eco-complex; Thuan Thao was never penalized for stealing the trees. The newly forested Cendeluxe Hotel seems out of place at best in a poor city like Tuy Hoa and it is not immediately obvious who the hotel might attract as guests. Mr. Cu noted that the hotel, which is branding itself as a conference hub, has already staged a number of national competitions such as a beauty contest and a national music festival and is actively marketing to European tourists, despite being more than 2.5 miles from the beach.

¶7. (SBU) Mr. Cu acknowledged that many large potential investment projects in Phu Yen province, even after receiving an investment license, never make it off paper. There are currently only three foreign-invested companies in Phu Yen and he did not know whether U.S.-based Galileo Company's multi-million "Creative City" project "to create a Hollywood, Harvard and Disneyland all in one" would come through, but he did verify that the company is renting office space in Tuy Hoa. Mr. Cu also talked about a group of Dubai investors who had come to Phu Yen keen to invest \$533 billion dollars, almost 8 times the total GDP of Vietnam. Because the deal involves such massive sums of money, Cu said it is being handled by Deputy Prime Minister Nguyen Sinh Hung and the media is prohibited from reporting on the deal. Despite all the province's purported advantages and signed licenses promising tens of billions in investment, the empty, locally-financed Cendelux complex stands alone in Phu Yen province.

Blessed by Luck: Khanh Hoa

¶8. (SBU) In contrast, parts of Khanh Hoa really do reflect development Phu Yen can only fantasize about. Ms. Truc of the Khanh Hoa provincial tourism authority said that Nha Trang has been "blessed by luck" and remains a draw for both domestic and international tourists, with the total number this year expected at 1.5 million. Although foreign tourism took a slight dip in 2009, Ms. Truc attributes that less to the economic slowdown than to concerns about H1N1 outbreak, particularly among overseas Vietnamese; she expects foreign tourism to rebound in ¶2010.

¶9. (SBU) Khanh Hoa is also blessed by central planning. The province boasts a huge 150,000 hectare project underway in Van Phong Bay, about 30 miles north of Nha Trang City that will be dedicated to a variety of industrial, residential, and tourism projects. Mr. Hoang Dinh Phi of the economic-zone authority said all areas have been registered by investors and the zone is big enough to accommodate industrial and tourism projects at once. There will be an oil refinery, a bonded fuel depot with one million ton capacity and two shipyards, one of which -- a Korean-Vietnamese joint-venture -- has recently begun constructing ships after many years of ship repair (note: another shipbuilding venture has been indefinitely postponed based on financing.) Mr. Phi said that one of the industrial

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parks around the bay will be geared toward hi-tech industries and an American solar panel company is among the foreign investors there. Vietnam's national port development plan also envisions an international transshipping terminal in Van Phong bay that will one day take a place alongside regional shipping powers like Singapore and Hong Kong. Besides good road, rail, and seaport networks, Mr. Phi noted, Nha Trang's principal airport would go international on December 11, hosting the first international flights from Singapore and the Ukraine.

¶10. (SBU) Khanh Hoa's leadership has steered the middle course of economic reform to 36th place in the 2008 PCI. The province retains an appreciation for big, centrally-planned projects, resulting in a disappointing "SOE-bias" and "land access and tenure" scores, but ranks with Binh Dinh near the top of the infrastructure rating.

Comment

¶11. (SBU) Adjacent provinces that share virtually identical climate, geography and even similar infrastructure can produce radically different investment environments. Our observations, backed up by those of thousands of businesses contributing to the Vietnam Provincial Competitiveness Index, indicate that commercial realities can be a reflection of provincial leadership and their economic policies. Khanh Hoa, which has storm-shielded bays and a well-established reputation, is making progress toward its development goals one big project at a time.

Meanwhile, there appeared to be a sharp contrast in the relationship between officials and business in Phu Yen and Binh Dinh based on meetings there, with the former providing a more intricately woven paternal role for business, and the latter a looser one. The highest party and government officials are native to each province though only Phu Yen's People's Committee Chairman boasts wartime credentials (reftel). Local leadership and the resulting investment climate, not central government plans and assistance, are defining the path of development in these south central coastal provinces.

¶12. (U) This cable was coordinated with Embassy Hanoi.
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